



# NOTES FROM THE:

## Deputy Assistant Secretary, Cost & Economics

by Mr Joseph T. Kammerer

Activity Based Costing/Activity Based Management (ABC/ABM). There are exciting events taking place throughout the Air Force to pursue business process improvements (BPI) through ABC/ABM. Recently, Mr Hale and I visited three Air Force bases—Eglin, Warner Robins, and Seymour Johnson—to review first hand what was happening in the field to implement these innovative techniques. ABC/ABM are useful tools to assist in bringing about process improvements and cost reduction in operations. Because ABC/ABM focuses on the cost of activities (i.e., cost of work performed), the focus shifts from what was spent to how it was spent. Also because ABC/ABM addresses the cost of activities from both the cost assignment and the process viewpoints, the focus on cost drivers and performance measures takes on more importance. At Eglin AFB, we witnessed the implementation of ABC/ABM in an enterprise management system basis for the 46th Test Wing. The Eglin team has developed user-friendly software to conduct interviews and populate the ABC database. Further, they developed an overall system architecture to make maximum use of legacy financial systems to develop an ABC/ABM data warehouse. The key to Eglin's success is leadership, involvement of the people to create ownership of the process improvement activity, and the development of user-friendly software. At the Warner-Robins ALC, the ABC/ABM implementation is being applied to their 11,000 person workforce to gain better insight into their costs and cost drivers. Again, their success is a result of support and top management leadership and the development of an ABC/ABM IPT for each organizational unit. At Seymour Johnson AFB, their experimentation with ABC/ABM has served as a training and feasibility effort and has shown that ABC/ABM can lead to cost management improvement. As financial managers, our responsibility is to learn the principles of ABC/ABM so that we can train others in its application (it's simple and not rocket science). Also, we can support those who are using ABC/ABM to bring about business process improvements by helping them to utilize the legacy financial systems to implement and design the ABC/ABM system architecture.

Air Force Reinvention Team—Maintain/Enhance Cost Estimating Capabilities Within the Air Force. SAF/FMC is leading a reinvention team addressing concerns identified by the Air Force Inspection Agency

during the Acquisition Management Review (AMR) of Operations and Support Cost Estimating. The AMR revealed a need for cost/performance/trade-off analysis early on in programs to support Cost as an Independent Variable (CAIV) efforts and to ensure best value acquisitions. The AMR also highlighted concerns of inadequate manning and inexperience in Air Force cost estimating positions. The reinvention team is led by Ed Kelly and recently held their kick-off meeting. The core team consists of representatives from AFCAA, ESC, ASC, and SMC and is currently identifying extended members from the ALCs, SSG, MSG, and other organizations to support this effort. The team is focused on establishing a process that will produce quality cost estimates and identifying the necessary resources (personnel, training, data, tools, etc.) to satisfy our customers. To that end, the first step is to understand and document current processes. The team will do this by administering surveys, conducting site visits, and performing a review of sample programs. The team will plan to deliver recommendations that include an improved documented process, formalized training program, appropriate manning levels, and tools and databases necessary to perform sound cost analysis. The team will present their baseline proposal to the Acquisition Reform Leadership Council and then to SAF/AQ in the near future. The overall goal for project completion is mid-December 1999.

Air Force Total Ownership Cost (AFTOC) Management Information System. AFTOC provides comprehensive and timely cost information with a focus on major Air Force systems. If you visit the AFTOC web site <http://www.aftoc.tasc.com> you will notice expanded capability compared to just a few months ago. In April 1999, first quarter FY99 data was posted. The FYDP information shown in the appropriation format data products now reflects the FY00 PB position. Space systems and tactical missile systems are reported alongside aircraft. Military construction costs have been added to the indirect costs reported by installation. More commodity detail is available since the Standard Base Supply System (SBSS) has become our primary source for National Stock Number cost data. Data cubes have been built which allow a user to drill down on the data found in the standard products as well as

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the accounting and personnel system feeds. An Excel plug-in tool, Essbase, provides direct access to the data cubes for web-enabled users allowing custom report generation. Sixty AFTOC users attended the first Essbase training sessions which were offered in conjunction with the AFTOC IPT in early May 1999 at Langley AFB. More training sessions are being scheduled.

The AFTOC Program Office realizes the need for approved DoD contractors to be allowed access to AFTOC data. To date, only DoD government personnel have been granted AFTOC passwords. In the near future, approved DoD contractors will be granted various levels of access: FFRDCs and non-manufacturing consultants will be given unlimited access, manufacturing contractors will be granted limited access to historical data

Housing Privatization—Loan Servicing and Portfolio Management. As the Military Housing Improvement Program (MHIP) develops, particularly with the Lackland project under construction, we are pursuing the requirements for loan servicing and loan portfolio management. The term loan servicing is analogous to paying one's monthly mortgage to what is typically a billing company for the lender. It is really an administrative function that is economically done on a very large number of loans. In contrast, loan portfolio management is a far more complex area that requires specialized financial skills and considerable knowledge of federal law. In essence, portfolio management is managing a pool, or portfolio, of loans such that risk of loan default is minimized. We are currently discussing the possibility of having Air Force loans serviced and portfolio management performed by another federal agency or quasi-governmental organization that is already in the business, e.g., HUD, USDA, Fannie Mae, Freddie Mac, GSA, etc. Following discussions with federally-based organizations, we will be contacting private sector firms that also perform loan servicing and portfolio management. Overall, both loan servicing and portfolio management are prime candidates for outsourcing, with many qualified candidates to perform these functions. The next step will involve determining our role in internal Air Force oversight, especially with respect to the area of portfolio management.

